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SUBJECT: MOSCOW FORUM OFFERS INNOVATION CORNUCOPIA

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11. (U) SUMMARY: Moscow's Seventh International Salon of Innovations and Investments, February 5-8, offered a cornucopia of products, services and financial programs for the developing innovation economy. In contrast to last year's Salon (REFTEL), there were significantly more exhibitors, and they had many more products already in production and on the market. While several exhibitors were Moscow-based, the vast majority were from the regions, representing the breadth of Russian innovation activity. Investment funds offered money and advice to innovative enterprises that were looking for sponsors. Reflecting its solid ties to the Russian economy, Iran had the largest contingent among the foreign exhibitors. END SUMMARY

12. (U) From February 5 to 8, more than 500 enterprises showcased their wares at the All-Russian Exhibition Center. Forty regions of Russia represented the spread of technology beyond the center. The well-attended Salon was sponsored by the Ministry of Education and Science, the Ministry of Economic Development and Trade and the City of Moscow.

13. (U) Exhibitors from the regions included the innovation technology firm Monocrystal PLC, based in Stavropol, which produces synthetic sapphires for computers, optical electronic devices and laser diodes. Representatives of Monocrystal told us they had captured 15 percent of the world market for synthetic sapphires used in high technology applications. Synthetic sapphire substrates are used in LED displays. Monocrystal's customers include Microsoft and Intel in the U.S. market, where it has a 3 percent market share. The company employs 600 people in Stavropol and exports 85 percent of its products to markets in Asia -- primarily, China, Taiwan and South Korea-- and the European Union. Its revenues are approximately \$60 million per year.

14. (U) Another typical regional technology company is the biotech firm Cellular Technologies that produces an anti-wrinkle beauty cream using stem cells extracted from animals. A company representative told us the firm was created in 2005 and has granted a license to Dow-Corning for production in the U.S. In its first year of operation in the Southern Federal District, Cellular Technologies produced approximately 12,000 units of the cream, which it sells through distributors in Eastern Europe for 30 euros each. The product Silky Touch is registered in Russia and the European Union. Cellular Technologies has started a European operation in Prague to sell to Russia in order to take advantage of favorable

export financing.

15. (U) This year's salon was distinguished by the number of investment funds that offer financing for regional start-up technology companies. The Foundation for Assistance to Small Innovative Enterprises (FASIE) has been operating since 1994. FASIE assists small enterprises on a highly selective basis with seed money closely tied to annual performance reviews. (COMMENT: We visited FASIE's Moscow offices last year and were impressed with the professional business approach of its Director General Professor Ivan Bortnik. END COMMENT) The Moscow Center for Entrepreneurship has been operating for two years to help science students commercialize their inventions and new processes. The Center sets up clusters of student projects organized by a manager who takes an equity interest in lieu of salary. The Center has a current annual budget of 30 million rubles (about \$1.1 million) provided by an Alfa Group fund.

16. (U) The largest fund is the Russian Venture Company created under the Ministry of Economic Development and Trade as a collection of venture funds with \$550 million for investment. Its targets are defined as early stage companies having capitalization under 150 million rubles or less than \$5.5 million in sales in the past 12 months. Since July 2006, 15 such venture funds have been selected on a competitive basis to receive 49 percent of their start-up capital. Each fund is required to invest in at least eight entities over five years, but not longer than 10 years. Eligible investments are nanotechnology, information and telecommunications systems, sustainable development, renewable energy, transportation and aerospace systems, and counterterrorism. Ineligible investments, except when based on new technologies, are natural resources, consumer goods, retail goods, real estate, construction and energy generation, and vice industries, such as alcohol, tobacco, gambling and weapons.

17. (U) The Salon program included several roundtable discussions on issues related to the expansion of Russian innovation. Several

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speakers focused on the need to clarify the intellectual property dimensions of innovations. The confusion as to who "owns" an invention is slowing investment, according to the speakers. This year, the Federal Agency for Science and Innovations stationed personnel at the entrance to the roundtables to invite people to fill out an extensive survey on innovation in Russia. The survey solicited input on the main obstacles to innovation and opinions on how to spur it onward.

18. (SBU) Among the approximately 20 foreign exhibitors, Iran had the largest exhibition with 8 to 10 representatives present. Their products, which were described in English and Russian brochures, included a solar boiler for heating, a voltage regulator for automobile wiring and an electricity generator from wave action. One brochure written only in university-level Russian described a futuristic land-sea-space vehicle. However, the English brochures were generally written in grammatically-fractured form. For so little product, the number of Iranian representatives was disproportionate compared to the other exhibitions.

19. (U) COMMENT: The 2007 Salon represents tangible evidence of the spread of innovation technology and commercial sophistication to the regions. The exhibitors have developed and brought products to market and are now looking to expand their output and their geographical reach. There were more investment sources than the previous year, with real money in their pockets. These developments presage the eventual diversification of the economy, but they also emphasize how gargantuan the task remains.

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